Panel III.B Who will Pay for Needed Infrastructure?

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How much of the needed infrastructure should California public utilities subscribe to?

- Gas public utilities have two roles
  - Gas procurement agent for core customers, and
  - System operator of the transmission and storage assets serving all customers
- In its role as procurement agent, the gas utility should acquire all needed interstate capacity and storage for its core customers

SoCalGas and SDG&E's vision for their role as procurement agents for the core

- Firm interstate capacity should be reserved for core customers equal to average-temperature year throughput to assure reliability and price protection for core customer usage
- But there should be a range around that level to provide adequate flexibility in obtaining economic interstate capacity and to respond to changing economic conditions
- SDG&E should increase its core storage holdings to provide more winter price protection.
- A portfolio approach should be adopted with respect to existing and new pipeline capacity, and LNG
    - Diversify by basin, pipeline, and term

What is needed for the utilities, as procurement agents for core, to pursue a portfolio approach?

- Commission approval of a direction toward diversity in firm interstate pipeline capacity holdings, and possibly adding LNG to the portfolio
- Allowing SoCalGas to terminate or reduce existing capacity commitments on El Paso and Transwestern that expire in 2005/2006
- Developing a pre-approval and expedited approval process that will allow timely decision making

Does there need to be a re-examination of the public service obligations of the California public utilities if there otherwise would not be sufficient infrastructure?

- Our assessment indicates that there is sufficient infrastructure being developed
  - Adequate intrastate capacity and storage in southern California
  - A number of new supply options are being proposed to add new supplies in southern California
- There is no failure to provide infrastructure under the current core/noncore framework
- If a regulatory structure does not provide sufficient infrastructure, the regulatory framework should be changed. The gas utility should not be a backstop.

What additional intrastate pipeline expansions might be necessary?

- Building intrastate access to new supply sources to provide supply diversity
  - Sufficient intrastate capacity in place to serve expected load in southern California through 2016
  - But there are benefits from investments that provide intrastate access to new gas supply sources
    - More gas-on-gas competition creating lower prices under the right framework
    - Reduced overall price volatility
    - More reliability, less susceptibility to price spikes due to events on a single pipeline or in a single basin

How should the California public utilities' costs for the intrastate capacity be allocated?

- The diversity benefits of lower prices, improved reliability, and more price stability accrue to all customers
- Therefore, an appropriate framework would have all customers pay through rolled-in pricing
- The magnitude of the diversity benefit would justify constructing capacity desired by customers that would cost $50,000-100,000 per MMcfd
- Access could be provided to up to 2 Bcf/d of potential new gas supplies for less than $200 million, less than expected commodity price benefits.

The right framework is as important as building infrastructure in protecting customers

- Southern California Gas and SDG&E should be operated as an integrated transportation system with a single transmission rate
  - Integration will promote access to new gas supplies
- Firm, tradable intrastate receipt point rights should be established in California
  - Would allow customers equal access to new and existing supply sources
  - Would facilitate firm contracts (from supply source-to-burnertip) between customers and their suppliers
  - Would ensure customers receive the benefits of enhanced competition